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Show me the (value of) money!

Singapore Management University

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Plenty of adults are not financially literate. Teaching children early can make a big difference

In July 2016, The Philippines passed the “Economic and Financial Literacy Act” that declared the second week of November each year as Economic and Financial Literacy Week. It was passed, the Act stated, because “[t]he State recognizes the growth potential of the country through a financially literate people who make sound financial decisions, mobilize savings, and contribute ideas on improving economic and financial policies and programs”.

Financial literacy was deemed so important that the commitment to financial education was written into the charter of the central bank, Bangko Sentral ng Pilipinas. But what was the push factor that made this happen? Was it the 1997 Asian Financial Crisis? The 2008 Global Financial Crisis?

“In 2003-2004, we realised that based on the results at the Department of Labour survey that many of our OFW (Overseas Filipino Workers) spent 10 to 15 in the Middle East but they still don’t have money,” explains **Diwa C. Guinigundo**, Former Deputy Governor for the Monetary Stability Sector, Bangko Sentral ng Pilipinas.

“About 15 years ago, we launched this financial education programme focusing on the OFW. We took part in their pre-departure orientation, before the overseas worker left for the work assignment abroad. We provided them with some ideas on financial literacy. We do realise that one-day seminars are not enough, so we also co-ordinate with our embassies abroad to pursue financial literacy.”

FAILING THE "BIG THREE" TEST

Guinigundo made those remarks at the recent SMU SKBI Asia Pacific Financial Education Institute seminar, where it was reiterated that most people around the world were still unable to answer the “Big Three” financial literacy questions that measured:

1. numeracy as it relates to the capacity to do interest rate calculations and understand interest compounding;
2. understanding of inflation; and
3. understanding of risk diversification.

Annamaria Lusardi, Director of the Italian Financial Education Committee and Academic Director of the Global Financial Literacy Excellence Center (GFLEC), presented these findings while pointing out that those in poorer countries were especially vulnerable to poor financial literacy. She also pointed out that differences in financial literacy start early in life.

“In the US, less than 30 percent of respondents can correctly answer the Big Three by age 40, even though many consequential financial decisions are made well before that age,” she pointed out. “Similarly, in Switzerland only 45 percent of those age 35 or younger are able to correctly answer the Big Three questions.”

Efforts have been made to address this by teaching youth the fundamentals of financial literacy, such as the Jump$tart Coalition for Personal Financial Literacy in the U.S. Its chairman, Michael Staten, explained during the panel discussion that “there was a recognition that investing in youth made a lot of sense because they had the advantage of time on their side” as America was tackling spiralling rates of bankruptcies and credit card delinquencies.

Whether such programmes work are a contentious issue. In response to an audience question about the cost and problems of evaluating the success of such programmes, Lusardi stresses the need to have qualified people doing the evaluation.

“Evaluation is very hard to do,” she says. “This is where I see the potential for contribution by academics who are trained to do this complex evaluations. Working with other government agencies or institutions can be very important rather than giving people who are not trained to do the evaluation. I personally don’t think every programme needs to be evaluated, especially when it’s a pilot. But we need to have enough evidence so that we know how to proceed and replicate success stories.”

William Walstad, John T. and Mable M. Hay Professor of Economics at the University of Nebraska-Lincoln, stresses the need to think about financial education and its evaluation as being highly heterogeneous products.

“The context is so varied that it’s very hard to summarise exactly across every category and come with some kind of grand conclusion,” he elaborates. “You almost have to do some individual work. But when you start to do it on a micro level and eventually accumulate more and more evidence, you’ll start to see much better evidence. We are seeing that now based upon randomised trials that have been published in Brazil and other countries.”

HOW EARLY IS EARLY?

Leaving aside empirical evidence, the panel was also asked about the ideal age to start teaching children financial literacy and the role of parents in their children’s money habits.

“We are asked this question a lot and my answers is, ‘When the tooth fairy comes,’” says Lusardi, referring to the money left under the pillow in exchange for milk teeth. “Some people tell me that children are not interested in money, I think nothing is further from the truth. You give a piggy bank to a child and instantly he or she is transformed into a savvy banker because they won’t give you credit easily.

“When we think about the role of parents, we have to recognise two things. One, parents can have a great role in reinforcing concepts but I would be wary of leaving the teaching of financial literacy exclusively to the parents. A lot of parents, according to our survey, are not financially literate so they might be teaching the wrong things.” She concludes:

“The other thing is that the world is moving ahead very fast and it’s a different world from the one parents grew up in. Our parents didn’t have student loans and did not face the financial decisions we do now. We will learn from our parents no matter what, and that’s why schools are important in changing financial behaviour that might not be so good.

“Schools can have an equalising effect. If we leave it to the parents to teach, we will have a very unequal society where the children of college-educated savvy parents are going to transmit the knowledge while the children of less savvy parents will be left behind.”

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